## CPP ANNUAL USE OF CAPITAL SURVEY - 2010

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

GUARANTY FEDERAL BANCSHARES, INC.

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| Point of Contact: | Carter Peters, EVP/CFO | RSSD: (For Bank Holding Companies) | 2618940 |
| UST Sequence Number: | 422 | Docket Number: (For Thrift Holding Companies) | |
| CPP/CDCI Funds Received: | 17,000,000 | FDIC Certificate Number: (For Depository Institutions) | |
| CPP/CDCI Funds Repaid to Date: | | Credit Union Charter Number: (For Credit Unions) | |
| Date Funded (first funding): | January 30, 2009 | City: | Springfield |
| Date Repaid[1]: | N/A | State: | Missouri |

[1]If repayment was incremental, please enter the most recent repayment date.

*American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.*

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

[X] **Increase lending or reduce lending less than otherwise would have occurred.**

Total loans declined $24 million from December 2009 to December 2010. However, the CPP allowed the Bank to not restrict lending further due to the economic downturn or the regulatory pressure on loan concentrations. The Company is focusing on small business and owner occupied credits.

[ ] **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☐ **Increase securities purchased (ABS, MBS, etc.).**

X **Make other investments.**

The Company took advantage of investment opportunities which provided low income housing to individuals in our community. Approximately $1 million of these investments were made in January 2011.

X **Increase reserves for non-performing assets.**

During 2010, the Company provisioned $5.2 million of expense to allocate additional loan loss reserves on specific non-performing credits that have deteriorated due to the weak economy.

X **Reduce borrowings.**

During 2010, the Company was able to reduce its advances (debt) to the Federal Home Loan Bank of Des Moines by $23 million. These advances are considered non-core liabilities and more volatile than customer deposits by regulators.

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X **Increase charge-offs.**

Loan charge-offs were again significant to the Company in 2010 at $6.2 million, net of recoveries.  These charge-offs were necessary on impaired loans with deteriorating collateral values and markdowns to lower appraisal values at time of foreclosure.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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**What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?**

1. Risk of falling below Well-Capitalized per the Prompt Corrective Action standards addressed in Part 325 of the FDIC Rules and Regulations2. Reduced ability for lending activity3. Loss of shareholder and customer confidence during the economic downturn.4. Potential repercussions from borrowing availability from sources such as the Federal Home Loan Bank and others considered brokered that would be limited due to capital restraints.5. Seek out other capital sources in 2009 that were extremely limited at the time.

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**What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?**

1. Continue to focus on the credit needs of our community.  Additional capital allows us to continue to seek out small business and owner occupied real estate customer opportunities.2. Support increased reserves/losses recognized on problem credits and deteriorating values on existing foreclosed assets held for sale.3. Allow time on certain borrowers in a workout situation and prevent some foreclosures and other potential mortgage-related losses.4. Assist in the Company's reduction of non-core liabilities.5. Reducing the Company's exposure to commercial real estate related credits.

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**Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.**